

Voluntary Report – Voluntary - Public Distribution

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Report Name: Financial Troubles Spread for South Africa s Largest Sugar
Processor

Country: South Africa - Republic of

Post: Pretoria

Report Category: Sugar

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Report Highlights:

On October 28, 2022, Tongaat Hullet’s management announced that they opted to go into voluntary business rescue due to the company’s severe levels of financial distress. On Tuesday November 1, Tongaat Hullet missed the deadline to pay R401 million (\$22.9 million) for cane delivered by 4,300 growers in September. The company, however, managed to pay 4,000 small-scale growers and are left with outstanding payment to commercial growers. Raw sugar production is expected to fall by 2 percent to 2 million metric tons (MT) in the 2022/23 market year (MY), due to a reduction in the quantity of cane delivered to mills, limited crushing capacity as a result of the closure of two sugar mills, and a decline in mill efficiencies.

Background

Tongaat Hullet, South Africa's largest sugar processor was founded in 1892 with its origins in the KwaZulu-Natal province. Today, the company owns several sugar mills throughout South Africa, Mozambique, Eswatini, Zimbabwe, and Botswana. Tongaat produces more than a quarter of the sugar South Africa consumes, and its mills produce 50 percent of the refined sweetener for the country, which is home to big corporate consumers such as Tiger Brands and Pioneer Foods. The company employs more than 26,000 people and provides a livelihood to more than 20,000 cane growers. The company operates mills in three different locations in South Africa, which supports economic activity in 18 small towns. More than 12,600 sugarcane producers supply these mills, 95 percent of which are small-scale growers.

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Tongaat attributed its latest problems to a R369 million (\$20.8 million) loss of sugar at a refinery, a depressed property market, the withdrawal of support by a credit insurer, and significant cost increases in commodities and raw materials as a result of Russia's Ukraine invasion. The situation was worsened by KwaZulu-Natal floods earlier this year and the July 2021 riots (See also [South Africa: Impact of the Ongoing Civil Unrest in South Africa on Food and the Agriculture Sector](#)), which erased about R1 billion (\$56 million) in revenue. The company's financial problems started in 2019 when it disclosed corporate fraud after accusations surfaced that it inflated its financial position by R12 billion (\$675 million) from 2011 to 2018. An investigation into the company's financial affairs revealed that the company inflated profits and exaggerated the value of assets and sugarcane. Subsequent to the findings, the company was forced to resubmit previous financial results, which revealed a decrease of total assets by R12 billion (\$675 million). Its shares are currently suspended on the JSE, the largest stock exchange in Africa.

As a result of the financial restructuring process, Tongaat Hullett lost access to its bank accounts and was unable to make payments of R401 million (\$22.9 million) for cane delivered to its mills by about 4,300 growers in September. The company negotiated payment terms with the South African Cane Growers Association (SACGA) for most sugar delivered to its mills by farmers in October. The parties further agreed that November deliveries will only resume when all the farmers are paid for October. Tongaat paid 4,000 small-scale growers and most commercial farmers, but the company still owes outstanding payment to other commercial growers. According to SACGA, the non-payment or demise of the company places the livelihoods of an estimated 14,642 permanent and seasonal farm workers employed by the growers at risk. However, this figure excludes contractors, hauler companies, input suppliers, mill workers and other service providers throughout the value chain who will also be impacted.

South Africa produced 2 million MT of sugar from 350,000 hectares of cane crop in 2021. Raw sugar production is expected to fall by 2 percent to 2 million MT in the 2022/23 MY, due to a reduction in the quantity of cane delivered to mills, limited crushing capacity because of the closure of two sugar mills, and a decline in mill efficiencies.

Attachments:

No Attachments.